Alberta Economic Development

Alberta Business Outlook 2002-2003

August 2002
Policy and Economic Analysis

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ALBERTA BUSINESS OUTLOOK, 2002 - 2003
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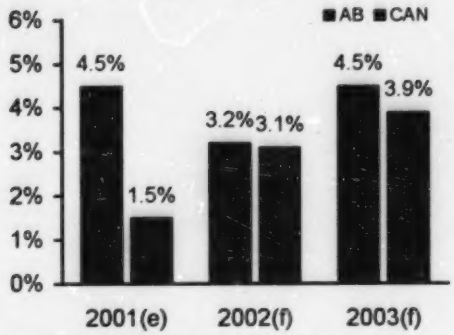
OVERVIEW

Although the events of September 11 had an effect on Alberta's economy, especially on the tourism industry, Alberta was less impacted than most other provinces. The recession in the North American manufacturing industry, which was already in progress prior to September 11, may have had a larger impact, as it led to lower shipments of manufactured goods and of the inputs used by this industry, including energy.

Nevertheless, Alberta's economy expanded strongly in 2001 because of strong domestic demand, which fueled the retail and wholesale sectors, and robust construction activity. Real Gross Domestic Product (GDP) growth for Alberta is expected to have reached 4.5 per cent in 2001.

Real GDP Growth



Sources: Alberta Finance; Statistics Canada; private sector forecasters

Alberta's economy is expected to continue to perform well in 2002, although it will likely grow at a more moderate rate than in 2001, due to an expected decline in capital investment and a slowdown in energy and non-residential construction activity. All private sector forecasters surveyed expect Alberta's economy to perform very well in 2003, as exports and investment are expected to show solid growth, as will the non-residential construction and energy sectors.

Private sector GDP forecasts for Alberta have an unusually wide range for 2002 - from 2.5 to 4.6 per cent growth - with the average coming in at 3.2 per cent. For 2003, all forecasters expect Alberta to be one of the top two provinces, with growth forecasts ranging from 4.1 to 4.8 per cent.

KEY INDICATORS

Consumer demand is again fueling Alberta's economy in 2002. This is expected to translate into strong growth for Alberta's service sectors, especially retail trade and finance, insurance and real estate.

High growth in disposable income and employment are positively impacting Alberta's economic performance in 2002. However, the weakening of the US and Canadian economies over the past year has significantly reduced export growth. Lower energy prices towards the end of 2001 and in early 2002 have led to lower drilling activity, which in turn is expected to result in a decline in capital investment.

Current economic indicators are sending out mixed messages about Alberta's economic performance in the

first part of 2002. As a result, economic growth will likely be lower than in 2001.

The following indicators suggest a robust economy:

- Total employment rose by an average of 28,600 during the first six months,
- Retail sales rose 8.9 per cent in the first five months,
- Housing starts jumped 44 per cent in the first half of 2002,
- MLS home sales up 13 per cent through May,
- The number of new motor vehicles sold increased by 12 per cent in the first five months,
- Building permits increased 15 per cent in the first five months, and
- Wages and salaries up 5.5 per cent in the first quarter.

Indicators that indicate a softer economy include:

- The value of international goods exports down 35 per cent in the first five months,
- The value of manufacturing shipments declined 11 per cent through May,
- Production of crude oil and natural gas are down by just over two per cent in the first quarter, and
- The number of wells drilled down 29 per cent in the first half of 2002, and the number of active drilling rigs down 28 per cent.

After creating 43,900 new jobs in 2001, Alberta's employment level is forecast to rise by 31,000 in 2002. This lower increase is the result of the province's anticipated lower economic growth. Although employment in the service sector has continued to grow strongly in 2002, employment in the energy sector has fallen in the first half. Stronger economic growth is expected to result in higher job growth of at least 40,000 in 2003.

In 2001, farm cash receipts increased to a record $8.3 billion. The latest official forecast for 2002 is for a decrease in farm cash receipts, based on the expectation of lower livestock receipts and the assumption of lower government payments. However, Alberta has just announced a new drought related farm income assistance program and further increases are anticipated in payments under crop insurance and other federal/provincial safety net programs.

As a result of drought conditions, total production of grains and oilseeds in 2002 is expected to be at best no better than last year, the lowest level since 1992. Livestock receipts are forecast to decline on a year-to-year basis for the first time since 1991. Prices have fallen significantly with increased availability of chicken, pork and beef in the North American market.

Crude oil prices for West Texas Intermediate (WTI) have remained strong in 2002 and the US Energy Information Agency (EIA) expects them to remain high for the rest of the year and into 2003. The price of natural gas peaked in early 2001 at more than Cdn$10 per thousand cubic feet, but weakened throughout 2001 to average just over Cdn$5 for the full year. Gas prices firmed in the first half of 2002 to reach just over Cdn$4 in the second quarter. The EIA anticipates that US gas prices will strengthen towards the end of 2002 and in 2003. US imports of oil and gas are expected to be weak this year, but should grow strongly in 2003.

According to the Canadian Association of Oilwell Drilling Contractors, the industry set a second consecutive drilling record in 2001, with 17,933 wells drilled in Western Canada. 75 per cent of these wells were drilled in Alberta. The number of wells drilled is

forecast to decline to 14,323 in 2002, but should increase in 2003 because of recent strength in energy prices.

In 2001, total forestry shipments declined by nine per cent to $3.7 billion, as a result of lower prices for both solid wood products and wood pulp. In 2002, forestry shipments are forecast to increase slightly from 2001 levels, because of recent price increases. In May, the US Department of Commerce levied a countervailing duty as well as an anti-dumping duty on Canadian lumber, which should result in significant revenue losses for Alberta lumber producers.

After declining marginally in 2001, the value of manufacturing shipments is forecast to fall by about three per cent in 2002, because of lower commodity prices and reduced volumes of telecommunication equipment. The manufacturing sector could see shipments rise by approximately ten per cent in 2003, as a result of strong growth in world trade volumes and in the economies of Alberta's major trading partners, the US and the rest of Canada, and higher commodity prices.

Growth in Alberta's information and communications technology (ICT) sector was exceptionally strong in 2000. However, the global ICT downturn has had a major impact on Alberta's sector and especially the telecom equipment industry, which saw large declines in production and exports in 2001 and the first half of 2002.

After increasing by 9.1 per cent in 2001, the largest increase of all provinces, Alberta retail sales are growing strongly again this year, and are forecast to increase by seven per cent for all of 2002 because of high consumer confidence and low interest rates. In 2003, retail sales growth is expected to remain strong at 6.5 per cent, as a stronger economy and solid employment gains more than offset higher interest rates.

Although Alberta's tourism industry was affected by the events of September 11, the overall estimated impact of $75 million is lower than initially feared. Major marketing campaigns aimed at Albertans and residents of neighboring provinces in the last quarter of 2001 managed to mitigate the sharp downturn in travel by overseas and US residents to Alberta. September 11 continues to impact travel by overseas visitors because of security concerns, and has also resulted in reduced airline capacity for US and overseas flights. However, strong Canadian demand for tourism will more than offset weakness in foreign markets and lead to a forecast four per cent rise in 2002 Alberta tourism revenues.

The demand for new housing has surged in recent years because of the strong Alberta economy and population growth. This led to exceptionally robust growth in both single-detached starts and in multiple starts. Because of the strong year-to-date figures, total starts are forecast to increase by 4,800 units (16 per cent) to a record 34,000 in 2001. Housing starts are expected to remain strong in 2003 (second largest number of starts after 2002), although lower than in 2002.

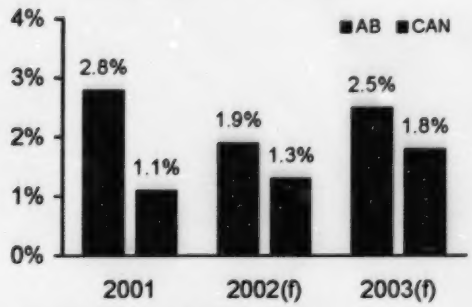
Non-residential construction is forecast to fall in 2002, as investment in conventional oil and gas projects, oil sands and petro-chemical plants are expected to weaken. Construction activity is forecast to increase in 2003, as investment in conventional energy projects rebounds.

EMPLOYMENT

A total of 43,900 net new jobs were created in 2001, because of Alberta's robust economic expansion and strong in-migration. Net migration, the difference between the number of people coming into Alberta from other provinces and other countries and the number of people leaving Alberta, totaled 35,070 in 2001.

Employment gains will be lower in 2002, as lower economic growth will cause labour demand to rise at a slower pace. Also, the combination of lower growth in Alberta's economy and higher growth in other provinces could lead to lower net migration and thus lower supply growth. For the first six months of 2002, average employment rose by 28,600. This year-to-date increase falls in line with private sector forecasts, which average 31,000 for all of 2002, an increase of 1.9 per cent from 2001. This exceeds the consensus forecast of 1.3 per cent for Canada.

Employment Growth



Sources: Statistics Canada; AED

Labour demand is forecast to increase strongly, and as a result the unemployment rate can be expected to drop in 2003, while employment levels could increase by 40,000, in line with the consensus forecast. Although workforce shortages have eased somewhat in the first half of this year, they will continue to be a major challenge as employment growth picks up in 2003.

DOWNSIDE RISKS

There are two downside risks to this outlook:

- Although it was assumed that both the US and Canadian economies will return to strong economic growth in 2002 and 2003, the possibility of a double dip recession cannot be totally ruled out. For instance, a further decline in consumer demand could be brought on by the recent large decline in North American stock markets or further concerns about national security. A continuation of the ICT sector's slump could also affect these two economies' economic performance.
- Weaker than expected oil and gas prices because of weak US/world energy demand, could result in further reductions in investment and employment in the energy sector.

SOURCES OF GDP GROWTH

Alberta's GDP advanced by 4.5 per cent in 2001, because of very strong growth in domestic demand, especially in consumer spending and capital investment. Export growth was minimal resulting in a decline in net exports (exports minus imports). Inventory run-downs also reduced overall GDP growth.

In 2002, growth in domestic demand is forecast to be lower than in 2001. While consumer spending is expected to remain strong, investment is set to decline because of reduced activity in the energy sector. Export growth will

likely again be low, mainly as a result of weak energy exports to the US. Net exports, however, could increase as import growth will also be low. (Note: in this section exports and imports include both international and inter-provincial trade.) The consensus forecast, the average of six private sector forecasts, for 2002 GDP growth is 3.2 per cent.

For 2003, GDP growth is forecast to rise to 4.5 per cent, mainly because of higher export and investment growth and continued strength in consumer spending.

Personal expenditures on goods and services grew strongly in 2001 by close to five per cent (adjusted for inflation), as lower provincial and federal taxes and utility rebates led to higher disposable income. For both 2002 and 2003, growth is forecast to again exceed four per cent. MLS sales, new car sales, retail sales and housing starts have been growing strongly in the first part of 2002. Although the housing and new vehicle markets are likely to cool off in 2003, retail sales are expected to remain strong because of continued strong consumer confidence and employment growth.

Investment growth for structures and machinery and equipment reached about ten per cent in 2001. Statistics Canada reported in July that investment intentions for 2002 are three per cent lower than 2001 investment, mainly as a result of a sharp decline in conventional oil and gas drilling. Lower energy prices towards the end of 2001 and in early 2002 caused the anticipated decline in drilling activity. In 2003, investment activity is forecast to increase, as conventional drilling is expected to rise.

Growth in export volumes was weak in 2001, with the value of international exports up 2.8 per cent from the previous year, mostly because of higher prices. As most other provinces had little or no economic growth in 2001, inter-provincial exports were also weak.

In 2002, economic growth in the US and Canada has increased significantly. However, this has not translated so far into export volume growth. The value of international exports declined by 35 per cent in the first five months, compared to the same period of 2001, as energy prices were near record highs in 2001.

Little or no growth is expected for export volumes of crude oil and natural gas, as the US government forecasts imports of these commodities to decline in 2002, because of high inventories.

Manufacturing exports have fallen in the first part of 2002, because of the global problems of the ICT sector, which caused exports of telecom equipment to decline. Manufacturing exports could increase over the balance of the year, because telecom exports appear to have bottomed out, and stronger economic growth in the US and other parts of the world will benefit Alberta exports of other manufactured goods.

Alberta imports rose by about three per cent in real terms in 2001. For 2002, lower growth is expected, because of reduced demand from the energy sector. Import volume growth should be higher in 2003, because of Alberta's anticipated higher GDP growth rate and increased drilling activity.

After declining by more than ten per cent in 2001, net exports are forecast to remain flat or grow modestly in 2002. Export growth could be similar to import growth in 2002, but will likely exceed it in 2003 as higher global growth is expected to provide a significant boost to Alberta's exports.

AGRICULTURE

In 2001, farm cash receipts increased to a record $8.3 billion. Forecasts for Alberta in 2002, just released by Agriculture and Agri-Food Canada (AAFC), are for a decrease of 4.5 per cent in farm cash receipts. This forecast is based on the expectation of a three per cent decline in livestock receipts and an assumption of a 34 per cent drop in government payments. However, Alberta has just announced a new drought related farm income assistance program of $324 million. Further increases are anticipated in payments under crop insurance and other federal/provincial safety net programs. As a result, the decline in Alberta farm cash receipts might be less than the AAFC forecast.

International exports of agri-food products, which include primary and value-added agricultural products, rose to a record $6 billion in 2001. Exports for the first five months of 2002 fell by ten per cent versus the same period in 2001, mainly as a result of large volume declines for canola and barley to China, and to a lesser degree also pork and hogs to the US. It is anticipated that agri-food exports will strengthen in the second half of 2002.

Livestock receipts are forecast to decline on a year-over-year basis for the first time since 1991. Prices have fallen significantly with increased availability of chicken, pork and beef in the North American market.

Crop cash receipts on the other hand are forecast to increase slightly in 2002. As a result of drought conditions, total production of grains and oilseeds in 2002 is expected to be at best no better than last year, the lowest level since 1992. However, any loss in production may be offset somewhat by higher prices and the additional government payments.

Currently, Alberta cattle markets are weaker than in 2001. A slight increase in sales at lower prices is forecast for 2002. Live cattle exports to the US increased by almost 40 per cent in 2001 to 513,000 head. In the first six months of 2002, cattle exports to the US have again increased while feeder cattle imports from the US have declined significantly.

Hog prices are forecast to decline significantly in 2002, with increased production and competition from relatively large supplies of chicken and beef in North America. The number of hogs marketed increased 6.8 per cent in 2001 and a similar increase is projected for 2002.

A second successive drought in southern Alberta in 2001 contributed significantly to a decline of three per cent per cent in crop receipts. Prices in 2001 were significantly higher and moderated the impact of a lower sales volume. A similar situation is developing for 2002, with crop receipts forecast to increase by 3.2 per cent.

Canola production was down 20 per cent in 2001 with lower acreage and yields. Sales were down by 13 per cent as higher prices reduced inventories carried from 2000. Crusher margins have been under severe pressure from global soybean surpluses and higher canola prices. Canola production is forecast to decline a further ten per cent in 2002 and prices to rise by over 15 per cent.

Barley production declined by three per cent in 2001, but prices increased around 35 per cent as a result of limited supplies in Western Canada. These high prices led to significant imports of

US corn by cattle feeders in Alberta. This scenario has continued in 2002 with preliminary production estimates of a slightly higher crop and even higher average prices.

Wheat receipts declined by 4.8 per cent in 2001 to $914 million but still contributed 40 per cent of all crop cash receipts. The forecast for 2002 is for a further decline of 2.3 per cent. Wheat remains Alberta's largest commodity export.

The agri-food sector has not been impacted significantly by either US trade restrictions or border relations as a result of the September 11 crisis. However, a new US farm bill has the potential to significantly impact the agriculture sector in Alberta. Of particular concern is the requirement for mandatory origin labeling of meats sold at retail by September 2004. A second concern is both the absolute levels of support and the individual supports specified for a range of US crops.

Section provided by the Department of Agriculture, Food and Rural Development

ENERGY

High oil and gas prices resulted in increased activity in the energy industry in the first half of 2001. However, lower oil and gas prices reduced drilling activity in the latter part of 2001 and into 2002.

Revenues for Alberta's energy sector increased to $50.1 billion in 2001. Natural gas sales accounted for more than 55 per cent of these revenues and oil sales for just over one-third. US imports of Alberta energy grew strongly in 2001, but are expected to remain flat this year.

The Alberta government has put forth an alternative emission reduction proposal that is mindful of the economic hardships the Kyoto Protocol would place on Alberta's energy industry. The new proposal includes cuts to greenhouse gas emissions intensity as well as emissions trading. Alberta could invest up to $800 million over 20 years to promote the development of new emissions reduction technology.

Investment in Alberta's oil sands is set to remain strong. More than $45 billion in investment has been announced, much of it to take place over the next five years. Shell's new oil sands plant is expected to start producing in early 2003. As a result of these projects oil sands output is expected to rise from its current level of just over 600,000 barrels a day to at least 1.7 million barrels a day by 2010.

June was the fourth consecutive month in which crude oil prices exceeded US$24 per barrel, higher than the price levels achieved in the previous six months. Although world-wide oil inventories are high because of weak global demand and warm winter weather, lower inventories and hence price firmness are expected over the next few months.

OPEC recently agreed to continue its current output ceiling into the third quarter of 2002. However, OPEC members continue to exceed their quotas, pumping out 1.4 million barrels per day more than their quotas in May. Increasing global demand combined with OPEC's low oil quotas are expected to keep oil prices high. The US Energy Information Agency (EIA) anticipates that oil prices will remain strong in the remainder of 2002 and in 2003.

Heavy crude oil prices have strengthened remarkably since last fall when the heavy – light oil differential (the price difference between the two grades) reached record highs, because of a US refinery fire and the economic slowdown. Since then OPEC cutbacks in heavy oil production have caused heavy oil prices to more than double and the differential to fall back to more normal levels.

US crude oil demand is forecast to rise by only 0.1 per cent in 2002 and by three per cent in 2003. US oil imports are expected to decline by 5.2 per cent in 2002 and increase by 6.6 per cent in 2003. Over the longer term the EIA is forecasting average annual oil import growth of about 2.4 per cent per year until 2010. Alberta's share of US imports is expected to rise because of security of supply concerns and growing oil sands output.

Although air travel is slowly recovering, the demand for jet-fuel will likely again decline in 2002. The decline will be concentrated in the first half of this year and year-over-year growth should be strong in the fourth quarter. Strong demand growth is forecast for 2003.

The International Energy Agency (IEA) expects that the global oil slump may have ended during the second quarter. First quarter OECD demand dropped sharply, mainly as a result of warmer-than-normal temperatures in the northern hemisphere. World oil demand in 2002 is forecast to increase by 0.3 per cent, and demand in OECD countries is expected to increase marginally by 0.1 per cent. Global oil demand is forecast to grow by 1.4 per cent in 2003.

The average fieldgate price of natural gas, which fell throughout most of 2001, has increased in recent months to average just above Cdn$4 per thousand cubic feet in the second quarter of 2002. Even though US storage levels remain high, the EIA expects prices to decline only marginally over the next few months, and to remain strong for all of 2002. The US' improved economic performance, high oil prices and lower gas inventories should translate into slightly higher prices in 2003.

The EIA forecasts US natural gas demand to rise by 1.7 per cent in 2002, and by 3.5 per cent in 2003. US gas imports have been declining since last November and are forecast to remain weak until November 2002 because of excessive storage levels.

After 2002, US demand for natural gas is expected to increase strongly, boosted by increased demand for electricity generation. Strong demand growth combined with declining North American reserves will keep natural gas prices at relatively high levels over the medium term.

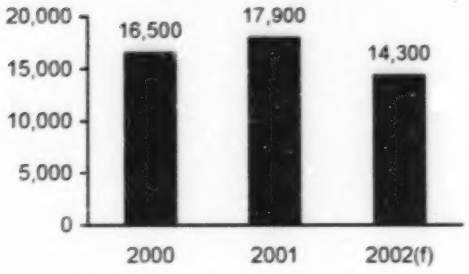
The Canadian Association of Oilwell Drilling Contractors (CAODC) estimates that a record 17,933 wells were drilled in Western Canada in 2001. Of these, 13,557 were completed in Alberta, also a record, including more than 9,000 gas wells. Drilling activity was strongest in the first half of 2001, with lower energy prices causing weaker activity in the latter part of the year.

The CAODC forecasts 14,323 wells for 2002, because of lower oil and gas prices. However, this level of activity is high by historical standards. About 75 per cent of these wells will be punched in Alberta.

In the first half of 2002, 6,461 wells were completed in western Canada, down 29 per cent from the same period of 2001. Gas wells account for roughly

three-quarters of the year-to-date total for 2002. It is expected that drilling activity will remain weak over the next few months, but will strengthen towards the end of 2002 and into 2003. Peters & Co. is forecasting that the number of wells drilled will be about 2,000 higher in 2003 than in 2002.

Wells Drilled in Western Canada



Source: CAODC

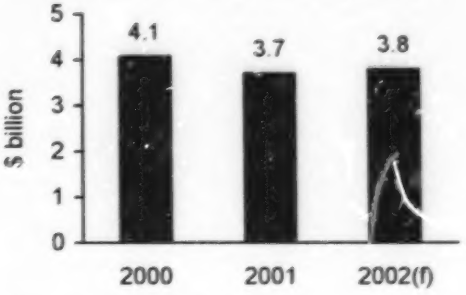
Output of the electric power industry is anticipated to rise sharply in the near future. Approximately $6 billion of investment in traditional generation and co-generation facilities has been announced or is currently under construction.

Forestry

Even though volumes shipped increased, lower lumber and especially panel-board prices led to a small decline in Alberta's solid wood product shipments in 2001. Price declines for wood pulp caused pulp and paper shipments to drop by 19 per cent. Total forestry shipments declined by nine per cent to $3.7 billion.

In the first five months of 2002, solid wood product shipments increased ten per cent from the same period of 2001, due to higher lumber prices. Pulp and paper shipments fell by eight per cent (lower pulp and newsprint prices). For all of 2002, Alberta forestry shipments are forecast to rise slightly from 2001 levels, mainly because of recent price increases.

Alberta Forestry Shipments



Sources: Statistics Canada; AED

The US Department of Commerce (DOC) found that Canada was guilty of subsidizing its lumber industry and dumping products into the US at prices lower than their production cost. As a result, the US imposed a countervailing duty as well as an anti-dumping duty. The combined duty of 27.2 per cent, which took effect on May 22, 2002, raises the break-even price for Canadian exporters to around US$248/Mbf. According to the Alberta Forest Products Association "the Alberta economy could lose up to $200 million per year" as a result of these duties.

On July 26, the World Trade Organization, in a preliminary ruling on an earlier imposed 19 per cent softwood lumber duty, stated that although the United States did not violate global trade rules in setting countervailing duties last year, the US methodology for arriving at the duty was seriously flawed.

Lumber prices were trading above US$250/Mbf (thousand board-feet) for most of 2002, but dropped below this

level in June and July. Recent lumber price weakness is the result of heavy shipments of duty free Canadian lumber to transfer yards south of the border during the duty free period from May 5 to the imposition date of May 22 for the new duties and excess production. As a result, prices fell to $240/Mbf by mid July. Prices could remain weak until these inventories are drawn down, but will likely rise thereafter.

The US new housing market was strong in 2001 and the first half of 2002, and is expected to remain strong for the remainder of the year, because of low interest rates and strong consumer confidence.

North-central (NC) oriented strand board (OSB) prices fell steadily throughout the second quarter of 2002, from just over US$175/Msf (thousand board feet) in early April to around $140 by mid July. The decline in OSB prices was due to excess supply and increasing buyers' power (resulting in steep discounts). Canadian OSB production increased by 8.1 per cent in the first four months of 2002.

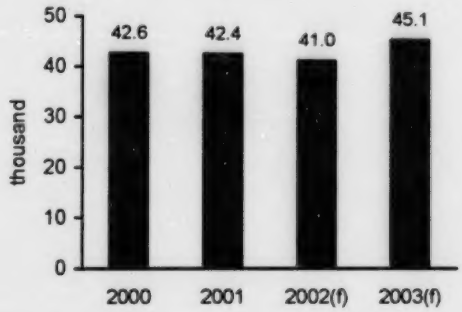
After declining throughout most of 2001, prices of all grades of pulp remained weak in the first half of 2002. However, prices of northern bleached softwood kraft pulp started increasing in May, from US$465/metric tonne (mt) to reach US$510 by mid July, because of falling North American and Scandinavian producer inventories. Prices of hardwood kraft pulp have also increased. A number of producers announced a further $10/mt rise for July, and prices are expected to remain strong over the near term because of higher global demand.

Newsprint prices declined sharply since mid 2001, when they peaked at US$625/mt, to US$450 by June 2002, due to decreasing newsprint consumption in the US and Asia. All of North America's top producers have recently increased August prices by US$50/mt, because of increased advertising lineage and the improving world economy.

MANUFACTURING

Manufacturing shipments fell marginally by 0.4 per cent to $42.4 billion in 2001. This decline was mainly the result of lower commodity prices, for instance for petroleum products, petrochemicals and wood pulp, and lower volumes of telecommunication equipment due to the global slump in the Information Technology (IT) industry. The sectors with the strongest growth in 2001 were machinery, especially oil and gas field equipment, and food and beverages.

Alberta Manufacturing Shipments



Sources: Statistics Canada; AED

During the first five months of 2002, Alberta shipments declined 10.9 per cent, again as a result of lower prices and reduced telecom volumes. The largest decline was recorded by the computers & electronics industry (mostly telecom equipment), followed by

chemicals and refined petroleum products.

Because the US has emerged from its recession, and Canada and a number of other major economies are seeing stronger economic growth in the first part of 2002, the performance of Alberta's manufacturing sector is expected to gradually improve throughout the remainder of the year. As a result, a decline of 3.1 per cent is forecast for all of 2002.

The manufacturing sector could see strong growth in 2003. World trade volumes are forecast to increase strongly, Alberta's major trading partners, especially the US and the rest of Canada, are expected to have very strong economic growth, and higher commodity prices are likely. It is also likely that the IT sector will emerge from its slump this year and show positive growth next year. As a result, ten per cent growth is forecast for the manufacturing sector in 2003.

In 2001, the value of chemical shipments declined slightly because of lower volumes resulting from the global economic slowdown. For the first five months of 2002, shipments fell by 21 per cent mostly because of lower prices, although volumes were also down. The outlook for the remainder of 2002 is mixed as increased capacity will lead to higher volumes, but prices may take longer to recover. Increased capacity, higher world demand and firmer prices should lead to strong growth in 2003.

In 2002 and 2003, capacity growth in the chemical industry will come from new polyethylene and linear alpha olefins (LAO) plants. Nova's polyethylene plant and BP's LAO plant are now in operation.

In 2001, shipments by Alberta's food and beverage industry rose 7.5 per cent to $9.9 billion, because of strong meat prices and increased output. Shipments remained flat during the first five months of 2002 as a result of a slight weakening in meat prices and low export growth. The value of meat exports to the US has risen strongly in recent years, and Mexico has increased imports of Alberta beef more than five-fold since 1999.

Alberta's computer and electronic products industry ships mostly telecommunication equipment. After growing sharply in 2000, the computer and electronic products industry declined by at least one-quarter in 2001 because of the global slump in the Information and Communication Technology (ICT) sector.

The industry's decline has continued into 2002, with the value of shipments down a further 48 per cent during the first five months. The outlook for both fixed-line and wireless telephone equipment manufacturers remains grim because of overcapacity and over-optimistic demand forecasts. Recent telecom bankruptcies and stock declines indicate that the industry's recovery may take even longer than initially feared and may not start until 2003.

Major new investments in oil sands, conventional drilling and power plants drove growth in Alberta's machinery and fabricated metals industries in 2001. Demand increased in both the domestic and foreign markets, and the value of shipments for the machinery and fabricated metals industries rose 17 per cent. Exports of oil and gas field equipment more than doubled between 1999 and 2001. Alberta manufacturers have recently increased their emphasis on emerging foreign markets. In the first five months of 2002, weaker activity in the energy sector caused the shipment value for the two sectors combined to drop by 7.6 per cent. It can be expected

that these sectors will perform better in the latter part of 2002 and in 2003, as activity in the energy sector picks up.

Information and Communications Technology

Alberta's Information and Communication Technology (ICT) sector includes companies engaged in producing computer & communications equipment; semiconductors & other electronic components; navigational, medical & control instruments; software/ computing products & services; and telecommunication equipment & services.

Prior to 2001, ICT was Alberta's fastest growing sector. Over the past ten years, ICT employment more than doubled, as did revenues. In 2001, Alberta's ICT sector consisted of about 9,500 companies, with 56,000 employees, revenues of $11 billion and exports totaling $3 billion.

Following the unprecedented growth of the late 1990's, global demand for telecom products weakened considerably starting in late 2000. Telecom service operators, which for years were investing in enough infrastructure to meet heightened future demand expectations, now have excess network capacity and are slashing their spending on telecom equipment to compensate.

Relying heavily on external markets, Alberta's telecom equipment industry was affected by global reductions in IT spending in 2001. Alberta telecom manufacturers saw their exports fall by about 40 per cent in 2001 and by 42 per cent during the first five months of 2002. Overall, the goods producing side of Alberta's ICT sector, mostly telecom equipment, saw revenues fall by one-third. However, ICT's service side continued to expand in 2001 led by strong revenue growth in the telecom services and computer systems design sub-sectors.

A stream of profit warnings, layoffs and even bankruptcies - including most recently the collapse of phone giant WorldCom – have recently taken place in the global telecommunications industry. With investors withdrawing funds from the sector, bank lenders tightening up credit because of recent write-downs, and debts of some telecom companies mounting, the industry may find it more difficult to finance expansion as global demand starts to pick up.

The current slowdown will continue to have the largest impact on suppliers of fixed line equipment. Export Development Corporation (EDC) forecasts that globally fixed line operators will reduce their capital spending by 18 per cent in 2002, compared to a two per cent spending decline predicted for wireless service providers. Ericsson, the world's largest producer of mobile phone networks, recently announced that it expects global sales of mobile phones to be flat or down slightly in 2002.

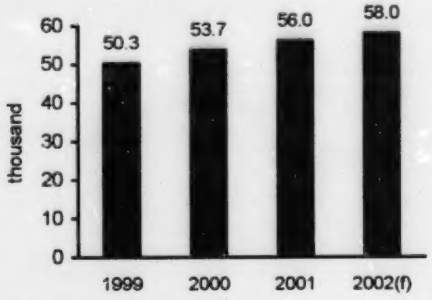
The telecom industry will recover, but an extended adjusted period is expected as firms rationalize their operations to address overcapacity issues. Future growth in communications equipment will depend mainly on how fast new technologies are adopted. For fixed line equipment, demand will be driven by broadband. For wireless equipment, success will depend largely on the diffusion of third generation (3G) wireless technologies.

Manufacturers of computer and related equipment, a relatively small industry in Alberta, face a brighter outlook in 2002. Although the industry is still experiencing excess capacity and

falling product prices, demand is expected to strengthen as the US economy recovers and as companies increase IT purchases to cut costs and boost productivity. Global computer chip sales are expected to rebound to about four per cent growth in 2002, following a 31 per cent decline in 2001 (Source: Economist Intelligence Unit).

Despite some recent layoffs in the telecom service industry, Alberta ICT employment is expected to reach 58,000 in 2002, up from 56,000 the previous year, as companies prepare for stronger demand abroad and an expanding Alberta market.

Alberta ICT Employment



Sources: Statistics Canada; AED

Owing to an expected recovery in telecom equipment sales and continuing growth in ICT services, employment is expected to accelerate to normal growth levels by late 2003. The Alberta government's commitment to attracting skilled workers and making information technology a major part of schools, libraries and other public facilities, will help facilitate this growth.

Alberta's ICT service providers benefit from a very strong domestic market. The province is the most connected in Canada in computer, cell phone and internet use. Last year, nearly 65 per cent of Alberta households reported regularly accessing the internet from home compared to a national rate of 60 per cent.

The Alberta Government will further enhance connectivity in the province through its support of the Alberta SuperNet. Scheduled for completion in 2004, this high-speed network will connect all areas of the province. The project, awarded to Bell Intrignia, is estimated at $300 million, with a maximum of $193 million funded by the Alberta Government.

Retail Trade

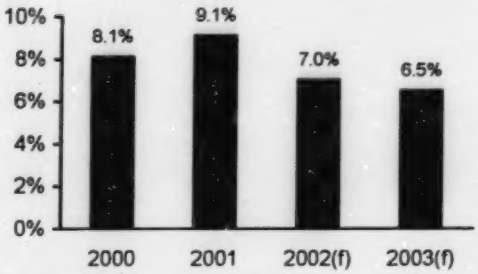
Alberta led the country in retail sales growth in 2001 and is leading all provinces again in 2002. In the first five months of 2002, retail sales increased by 8.9 per cent, well above the Canadian average of 5.8 per cent. The increase in retail sales was broad-based, led by strong growth in new car sales, as well as higher sales of auto parts & services and furniture & appliances.

After growing by 9.1 per cent in 2001, Alberta retail sales are forecast to increase at a lower rate in 2002. Sales growth in 2001 was fueled by personal tax reductions and utility rebates, and very strong economic and employment growth. In 2002, low interest rates will continue to provide a boost, but because of expected reductions in economic and employment growth, retail sales are forecast to advance at a slightly slower pace of seven per cent.

Alberta is expected to see strong retail sales growth in 2003, because of high consumer confidence and solid employment growth, which fuel higher growth in disposable income. However, it is likely that the stronger Canadian economy will cause further hikes in

interest rates, which could lead to lower growth in consumer durable goods. Moreover, recent growth in new car sales was largely the result of manufacturer rebates and other incentives, which are less likely to be offered now that the Canadian economy is growing strongly. As a result, new car sales will see little if any growth in 2003.

Alberta Retail Sales Growth



Sources: Statistics Canada; AED

According to the Conference Board of Canada, consumer confidence in the Prairies increased by 3.6 per cent between May and June of 2002, mainly due to Alberta's economic growth. This increase followed four months of little or no change. Higher consumer confidence should eventually translate into increased purchases of motor vehicles and other big-ticket and luxury items.

TOURISM

Immediately following the events of September 11, 2001, there was a dramatic decline in tourism activity that was most acutely felt in Alberta's National Parks and the two major cities. Tour operators cancelled many bookings and arrivals of international visitors were sharply curtailed. Initial estimates placed the loss to Alberta's tourism industry at $150 million.

However, the industry reacted to the events of September 11 by launching major marketing campaigns at near-in markets, with favourable results. The marketing efforts were in large part responsible for encouraging Albertans and residents of neighboring provinces to travel during the October through December 2001 period, thereby mitigating the impact of the sharp downturn in travel by overseas and US residents to Alberta. Consequently, the actual loss in tourism revenue to Alberta in 2001 has been estimated to be $75 million. While the industry was not as severely impacted as initially thought, some negative effects remain and will impact tourism revenues in 2002.

It is anticipated that reduced airline capacity on overseas routes and continued security concerns by potential visitors from some key markets, such as Japan, will result in a decline of approximately ten per cent in overnight province-visits by overseas residents. This decline is likely to be especially skewed toward the group tour market, where cancellations following September 11th will continue to make their impact felt in 2002.

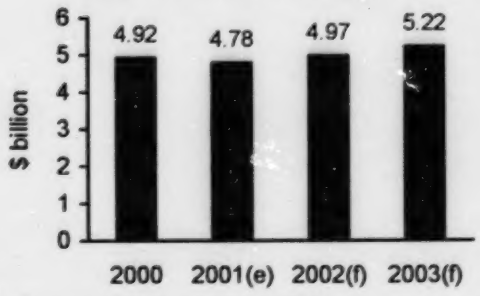
Reduced airline capacity in the wake of September 11th on flights between Canada and the United States is expected to curtail air travel by US residents to Alberta in 2002. New airport security measures and costs are also expected to result in somewhat fewer leisure visitors traveling by air. However, US overnight visitors arriving by automobile are expected to increase in 2002 because Alberta remains a popular destination for U.S. visitors and auto travel has become a viable option for many people. It is anticipated that the number of overnight province-visits to Alberta in 2002 by U.S. residents will remain unchanged or increase slightly compared to 2001.

Domestic travel is expected to perform well in 2002, especially leisure travel. A strong economy in Alberta, together with a tourism marketing campaign encouraging Albertans to travel in Alberta are expected to generate additional travel in 2002. A generally positive outlook for Canada's economy in 2002 is also expected to result in more overnight visitors to Alberta from other provinces, especially BC and Saskatchewan.

Business travel to Alberta is expected to show a modest increase in 2002, but somewhat higher prices for air travel and the associated inconvenience of increased security measures at airports is expected to stall the recovery of the business travel market. Overall, domestic person-visits to Alberta in 2002 are expected to increase three per cent over 2001.

Total tourism revenues for Alberta in 2002 are expected to increase approximately four per cent over 2001 and reach $4.97 billion.

Alberta Tourism Revenues



Sources: Statistics Canada; AED

CONSTRUCTION

According to Statistics Canada's latest survey of *Private and Public Investment in Canada* (PPI), total capital expenditures on new construction in Alberta increased by 11 per cent in 2001 to $27.3 billion, mostly as a result of high energy prices, which boosted drilling activity, increased oil sands investment and a strong housing market.

Based on companies' intentions, PPI predicted that in 2002 total construction investment will drop by five per cent, to $25.8 billion. This outlook was based on reduced drilling activity, lower oil sands construction expenditures and the winding down of major petro-chemical projects.

After rising by 14 per cent in 2001, energy-related construction investment was expected to fall by 15 per cent in 2002 to $13 billion. Although expenditures on machinery and equipment by the oil sands sector are expected to continue to grow strongly, construction investment is anticipated to fall 14 per cent to $2.1 billion in 2002. Conventional oil and gas extraction was expected to decline by 16 per cent. Recent strength in oil and gas prices have improved the outlook for the conventional oil and gas sector in the latter part of 2002 somewhat and could lead to strong growth in 2003.

Non-energy investment is expected to increase by 7.5 per cent to $12.8 billion in 2002 because of the booming new housing market and anticipated high growth for the following sectors:

- transportation (pipelines and air transport),
- public administration (municipal government) and
- utilities (electric power).

In 2003, capital expenditures on new construction are expected to increase by as much as ten per cent, due to strong conventional energy-related spending.

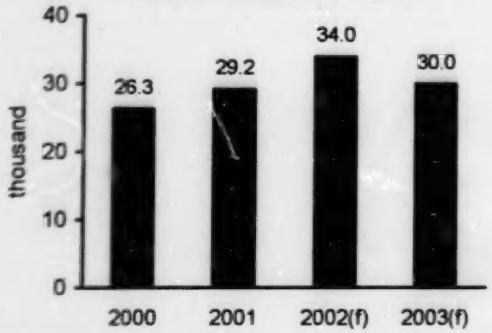
Residential construction has developed strongly over the past three years. In 2001, total housing starts rose 11 per cent to 29,200 units.

During the first half of 2002, urban housing starts increased by a staggering 44 per cent (an increase of 4,800 units) compared with last year's levels. Single family starts were up 36 per cent and multiple starts 60 per cent. Recent strength in residential building permits indicates that housing starts could remain strong over the next few months.

In 2002, Alberta housing starts are expected to reach 34,000 units. Starts in Edmonton were especially robust (up 80 per cent) during the first six months of 2002, although Calgary starts were also very strong (up 32 per cent). The 16 per cent increase in the number of housing starts will result from the healthy labour market, rising household incomes, strong net migration and low interest rates.

Although housing starts will be lower in 2003, the projected level of 30,000 starts is high by historical standards and the result of an improved Alberta labour market and a strong economy.

Alberta Housing Starts



Sources: CMHC; AED

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You can access the Alberta Business Outlook and the following related department publications on the web at www.alberta-canada.com/statpub:

- Facts on Alberta
- Monthly Economic Review
- Inventory of Major Alberta Projects
- Inventory of Regional Alberta Projects
- Global Economic Outlook
- Alberta's International Exports
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ISBN 0-7785-2348-9

Printed in Canada